

Independent Market Operator



Rule Change Notice

Title: Release of STEM Submission Information

Ref: RC_2007_13

Date: 17 September 2007

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Independent Market Operator

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1. INTRODUCTION

Market Rule 2.5.1 of the Wholesale Electricity Market Rules provides that any person (including the Independent Market Operator) may make a Rule Change Proposal by completing a Rule Change Proposal Form and submit this to the Independent Market Operator (IMO).

The IMO will assess the proposal and, within 5 Business Days of receiving the Rule Change Proposal Form, will notify the proponent whether the Rule Change Proposal will be progressed further.

In order for the proposal to be progressed the change proposal must explain how it will enable the Market Rules to better contribute to the achievement of the Wholesale Market Objectives. The objectives of the market are:

- (a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system;
- (b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors;
- (c) to avoid discrimination in that market against particular energy options and technologies, including sustainable energy options and technologies such as those that make use of renewable resources or that reduce overall greenhouse gas emissions;
- (d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system; and
- (e) to encourage the taking of measures to manage the amount of electricity used and when it is used.

A Rule Change Proposal can be processed using a Standard Process or a Fast Track Process. The Standard Process involves a combined 10 weeks public submission period, while the Fast Track Process involves the IMO consulting with Rule Participants who either advise the IMO that they wish to be consulted or the IMO considers have an interest in the change.

2. THE RULE CHANGE PROPOSAL

2.1. *The Submission*

The Economic Regulation Authority (ERA) submitted, on 13 September 2007, a Rule Change Proposal regarding changes to clause 10.5.1(i) ii of the Market Rules.

This Rule Change Notice is published according to Market Rule 2.5.7, which requires the IMO to publish a notice within 7 Business Days of receiving a Rule Change Proposal.

Submission details

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Date submitted:	13 September 2007
Urgency:	2
Change Proposal title:	Release of STEM Submission Information

2.2. Details of the Proposal

The ERA submits that the current timing of Short Term Energy Market (STEM) Bids and Offers information released to the Public under clause 10.5.1 of the Market Rules is contrary to the Wholesale Market Objectives outlined under clause 1.2.1.

The ERA says that a fundamental economic principle that arises from the competitive market model, as the economic benchmark used to inform the removal of efficiency impediments, is that market efficiency is compromised by market participants' inability to access, or respond to, market information. The ERA's view is that, in this context, the timing of when information is released is just as critical as its content.

The ERA notes that under clause 10.5.1.(i)ii. of the Market Rules, STEM Bids and Offers information for each Trading Interval is released on the Market Web Site up to two months after the completion of the Trading Day.

The ERA considers the lack of timely information release a hindrance to the market's efficient evolution. It says that in the longer run, lagged access to information is a barrier to entry for potential new market participants due to the increased risk that results from the uncertainty surrounding current market conditions.

The ERA notes that Clause 6.6.3 of the Market Rules requires a market generator's Portfolio Supply Curve to reflect its short run marginal cost. It submits that, therefore, a market generator's trading decision should not be influenced by STEM information because short run marginal cost should reflect solely the cost of running the generation plants and be independent of the behaviour of other market generators.

Nevertheless, the ERA considers that the short run marginal cost provision is a temporary measure in the transition to a more competitive market. The ERA submits that this transition would be better facilitated if current information were provided to market participants as well as to potential entrants. The ERA's view is that the evolution of the market to one that is actually competitive, as opposed to one that replicates the competitive outcome, would be smoother if the market were to function in the manner required for true competition to take place prior to the transition being made.

2.3. The Proposal and the Market Objectives

The ERA submits that the proposed Market Rule change would allow the Market Rules to better address the Wholesale Market Objectives by increasing information flows that result in a more economically efficient pattern of electricity generation and consumption, especially when a fully competitive market is realised. The ERA submits that:

- Generation would be more readily sourced at the lowest obtainable short run marginal cost. With readily observable Bids and Offers in each time period, generators would, with full knowledge of available price-quantity relationships, be better placed to choose between meeting their contracted supply by generating themselves, or to offset their contracted supply by purchasing electricity from cheaper marginal generators in the market.
- Generation would be more readily sourced at the lowest obtainable medium to short run average cost. With improved information flows, market prices would provide an up to date price history and thus provide continuous signals as to when it was

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economically efficient to take generating units offline for maintenance, or alternatively, when to incur start up costs.

- Efficient prices would enhance generators' ability to settle on their capital expenditure and maintenance programs at the lowest attainable long run average cost.
- Demand would be more price-responsive. Wholesale consumers would be better able to shift demand away from high price periods in direct response to actual prices, rather than assume prices based on lagged information. This would in turn reduce peak loads and thus reduce capacity requirement in the long run and expenditure on high cost fuels in the short run.

The ERA submits that barriers to entry faced by independent generators, including renewable generators, would be reduced. A more transparent wholesale market would reduce the risk that results from uncertainty over current market conditions. Prospective market entrants would be better placed to make rational commercial decisions when they can base them on up to date market information. The ERA considers that this would promote higher competition in generation in the longer run.

3. WHETHER THE PROPOSAL WILL BE PROGRESSED FURTHER

The IMO has decided to proceed with this proposal on the basis that the IMO's preliminary assessment indicated that the proposal is consistent with the Market Objectives.

The proposal will be progressed according to the Standard Rule Change Process described in section 2.7 of the Market Rules.

The projected timelines for processing this proposal are:

- This Rule Change Notice published 17/09/2007
- First Submission period 17/09/2007 - 29/10//2007
- Draft Report published 26/11/2007
- Second submission period 26/11/2007 - 24/12/2007
- Final Report published 24/01/2008

4. CALL FOR SUBMISSIONS

The IMO is seeking submissions regarding this proposal. The submission period is 6 weeks from the publication date of this notice. Submissions must be delivered to the IMO by close of business on **Monday 29 October 2007**.

The IMO prefers to receive submissions by email to marketadmin@imowa.com.au , using the submission form available on the IMO website:
http://www.imowa.com.au/10_5_1_a_v_open_rule_change_proposals.htm

Submissions may also be sent to the IMO by fax or post, addressed to:

Independent Market Operator
Attn: Dora Guzeleva, Manager Market Administration
PO Box 7096
Cloisters Square, Perth, WA 6850

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5. PROPOSED AMENDING RULES

The following rule change is proposed by the ERA:

10.5.1(i)ii for each Trading Interval in each ~~completed~~ Trading Day ~~Week~~ during the 12 calendar months, before the start of the Trading Day ending on the last day of the calendar month two months prior to the current calendar month:

- 1. the STEM Offers by Market Participant;*
- 2. the STEM Bids by Market Participant;*
- 3. the quantity bought or sold in the STEM by Market Participant; and*
- 4. the Fuel Declaration, Availability Declaration and, if applicable, Ancillary Service Declaration made by the Market Participant*